

“U.S.-CHINA RELATIONSHIP: ECONOMICS AND SECURITY IN PERSPECTIVE”

**PREPARED STATEMENT OF
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Madame Chairman, Mr. Vice-Chairman, distinguished members of the Commission, I thank you for the opportunity to speak on this topic. The two days of hearings will include in-depth examination of U.S.-China interactions in the economic, security, and diplomatic spheres. My remarks will attempt to provide a broader perspective on bilateral relations, with particular emphasis on the challenge of crafting a China policy that can address the range of common and conflicting U.S. and Chinese interests.

Of all the major powers, China arguably poses the most difficult strategic challenges for the United States. The two countries have a multifaceted relationship with a complex mix of cooperative and competitive elements. Concerns about the future have not stopped bilateral economic, political, and military interactions from deepening, a trend that has accelerated in recent years as the U.S. and Chinese economies have become more interdependent. China now affects a wide range of U.S. interests, from managing the North Korean nuclear crisis to supplying inexpensive goods to U.S. consumers. For its part, the United States is a key market and is uniquely positioned to facilitate or obstruct Chinese goals such as Taiwan unification and China's emergence as a great power.

An Ambivalent Relationship

Despite the growing importance of bilateral relations and deepening cooperation over the last six years, each side has serious concerns about the other. The Chinese government's market reforms and export-led development strategy have integrated China into the world economy, improved living standards, and widened choices for Chinese citizens. But China's economic success has aggravated U.S. concerns about a huge and growing bilateral trade deficit, inadequate protection of intellectual property rights, Chinese government efforts to influence the value of its currency to promote exports, and the ability of U.S. firms and workers to compete with goods produced by inexpensive Chinese labor and with state-owned firms that have access to capital at below-market

¹ The views expressed are those of the author and do not reflect the official policy or position of the National Defense University, the Department of Defense, or the U.S. government.

rates. China's rapid economic growth is also underwriting an ambitious military modernization program that threatens Taiwan and that may alter the balance of power in the Asia-Pacific region. These strategic concerns are reinforced by China's growing influence in Asia and increasing economic and diplomatic involvement in Latin America, Africa, and the Middle East.

The view from Beijing is equally ambivalent. Chinese leaders and scholars recognize the importance of the United States for China's economic development, and Beijing seeks stable, cooperative relations with Washington as it pursues peaceful development and the goal of building a "harmonious society." Yet many Chinese elites believe that the United States seeks to subvert the Chinese political system and to contain China's economic and military potential. Some believe U.S. talk about a "China threat" has been matched with policies intended to limit Chinese power. Evidence cited includes U.S. economic sanctions, efforts to limit Chinese acquisitions of military and dual-use technology, alleged tacit support for Taiwan independence, and even the accidental bombing of the Chinese embassy in Yugoslavia in 1999.

Chinese leaders recognize that a cooperative relationship with the United States is vital for China's economic development, which they regard as critical for maintaining domestic stability and ensuring continued Communist Party rule. The leadership transition from Jiang Zemin to Hu Jintao has resulted in some changes in Chinese domestic priorities, but has not reduced the importance of getting along with Washington or had a major impact on Chinese foreign policy. President Hu has advocated the goal of building a "harmonious society" and made greater efforts to ameliorate the negative side-effects of rapid economic growth. Economic inequality has grown rapidly in China in recent years as some individuals and regions have benefited more from reforms than others. Hu has sought to reduce the tax burden on China's farmers and raise rural incomes to reduce the potential for unrest in the countryside. He has also emphasized the goal of balanced development that gives greater weight to environmental considerations and seeks to make domestic demand an engine of growth for the Chinese economy.

Chinese leaders have been willing to compromise with the United States when necessary to maintain good relations and a stable international environment that promotes growth. Beijing has accommodated Washington and acquiesced to U.S. policies that run counter to its preferences, including U.S. pursuit of ballistic missile defenses, sales of advanced weapons to Taiwan, and the U.S. invasion of Iraq. Despite serious concerns about these U.S. actions, Chinese leaders have not made cooperation in other areas or the overall relationship conditional on changes in U.S. policy. The Bush administration's opposition to unilateral efforts by either China or Taiwan to alter the status quo in the Taiwan Strait has helped ease Beijing's fears about Taiwan independence and facilitated cooperation.

While seeking to avoid confrontation with Washington, China has also sometimes pursued policies such as economic assistance to North Korea and efforts to limit U.S. influence and military presence in Central Asia that complicate U.S. diplomatic strategies

and make it harder for the United States to achieve its policy objectives.² In recent years, China has accelerated its ongoing efforts to improve its military capabilities. These efforts include double-digit real increases in defense budgets, acquisition of advanced weapons systems such as Kilo class submarines and Sovremenny destroyers from Russia, and the development of new strategic weapons systems including mobile intercontinental ballistic missiles and anti-satellite weapons. These developments have raised questions in the United States and in Asia about China's long-term intentions.

The U.S. Approach to China

Rather than defining China as an ally or an adversary, the United States has tried to reap the economic and security benefits of cooperation while hedging against the potential emergence of China as a future threat. This approach reflects uncertainty about China's future political and military evolution. The U.S. strategy has two elements. The first emphasizes the role of cooperation and integration into global institutions (including the global economy) as a means of influencing Chinese behavior and shaping China's future political evolution in positive directions. The second emphasizes maintenance of U.S. military capabilities and alliances as a hedge against the possibility of a future China that becomes aggressive or threatening. The challenge in implementing this strategy is to keep the two elements in balance, so that overemphasis on cooperation does not leave the U.S. in an unfavorable strategic position and overemphasis on the military dimension does not stimulate nationalism and push China in the direction of confrontation.

Within the context of this hedge strategy, the Bush administration has sought to increase cooperation with China on a range of important economic and security issues including energy security, nonproliferation, and counter-terrorism. It has also sought to shape Chinese thinking about its own long-term interests by proposing the vision of China as a "responsible stakeholder" that helps maintain the current international system. This concept, elaborated in a 2005 speech by then Deputy Secretary of State Robert Zoellick, recognizes China's increasing impact on the international system and seeks to obtain Chinese support in sustaining the global institutions and norms that have contributed to its remarkable economic success.³ It represents an effort to expand the scope of U.S. and Chinese common interests and to place potential conflicts of interests within a larger framework of cooperation.

Zoellick's speech sparked widespread debate in China about how to translate the concept of "responsible stakeholder" and whether it was in China's interests to accept the current rules and norms of the international system. Chinese experts noted that the United States also needed to behave responsibly and should not be the sole judge of whether international behavior was responsible. After much debate, Chinese President Hu Jintao endorsed the concept during his April 2006 summit with President Bush, agreeing that "China and the United States are not only stakeholders, but they should also be

² Many Chinese officials and analysts do not believe the U.S. approach of pressuring North Korea will work and suspect that the U.S. objective is actually regime collapse.

³ Deputy Secretary of State Robert B. Zoellick, "Whither China: From Membership to Responsibility?" Remarks to National Committee on U.S.-China Relations, New York City, (21 September 2005), available at <<http://www.state.gov/s/d/rem/53682.htm>>.

constructive partners.”⁴ Hu’s phrasing highlighted the point that both countries have global responsibilities and placed China’s acceptance of the stakeholder concept within the context of an ongoing, positive U.S.-China relationship.

The Bush administration has sought to engage Chinese leaders and senior officials in discussions about China’s global responsibilities through a variety of mechanisms. In addition to formal summits, President Bush and President Hu see each other regularly at international meetings. The “senior dialogue” between Deputy Secretary Zoellick and Vice Foreign Minister Dai Bingguo has been the principal vehicle for explaining and elaborating on the responsible stakeholder concept. These discussions, which have continued with Undersecretary of State Nicholas Burns and Vice Foreign Minister Yang Jiechi following Zoellick’s departure from the government, explicitly address a range of global issues of common concern. This political dialogue has been joined by a cabinet-level U.S-China “strategic economic dialogue” led by Treasury Secretary Henry Paulson and Vice Premier Wu Yi. High-level military-to-military talks have also resumed, with then-Defense Secretary Rumsfeld visiting China in October 2005 and Central Military Commission Vice-Chairman Guo Boxiong visiting the United States in July 2006.

A variety of bilateral cooperative mechanisms have been established to follow up on the issues raised in these dialogues and pursue practical cooperation on areas of common interest. These include the Defense Consultative Talks, an ongoing dialogue on nonproliferation, and the shuttle diplomacy associated with the Six Party talks on the North Korean nuclear issue. Economic issues have been addressed through a range of bilateral channels, including the Joint Commission on Commerce and Trade. These executive branch mechanisms play a vital role in engaging various branches of the Chinese government and connecting a potentially abstract debate about “responsible behavior” to concrete policy issues and policy implementation.

While providing a useful framework, the responsible stakeholder concept contains a number of ambiguities that deserve attention. First, there is no clear definition of what constitutes “responsible behavior” in specific issue areas. China is unlikely to accept a definition of responsibility based on what behavior is most helpful for American interests or most congruent with American policy. The United States will also have difficulty holding China accountable to international rules and norms that it does not always respect. Second, Zoellick’s speech recognizes the reality of increasing Chinese influence in Asia, but avoids taking a position on Chinese long-term regional intentions or specifying which Chinese interests are legitimate and must be respected by the United States. Third, while Zoellick highlighted U.S. willingness to work with China in shaping new international rules, it is unclear whether the United States is willing to consider changes in existing rules and institutions to accommodate Chinese concerns and interests. Finally, the responsible stakeholder concept implicitly assumes that China will have influence within an international system where the United States plays the leading role. If

⁴ “Remarks by President Hu Jintao of The People's Republic of China at Welcoming Luncheon at the White House Hosted by President George W. Bush of the United States of America,” April 20, 2006, available at < <http://www.fmprc.gov.cn/eng/zxxx/t259220.htm>>.

China's power increases significantly, or if U.S. power wanes, the U.S. ability to continue to shape the international system may eventually come into question.

The Bush administration is doing a relatively good job of engaging China at a government-to-government level (although there are still some concerns about its ability to coordinate engagement with China across bureaucratic lines). However executive branch engagement is insufficient to reach understandings with the Chinese government which will persist over time and across administrations. There is a need for greater public and Congressional debate and deliberations about which Chinese interests are legitimate, and what means of pursuing them are responsible. Congressional commissions, caucuses, and committees can all play a useful role in articulating the U.S. interests that are affected by China and helping to build a consensus on what standards of responsible behavior make sense. As the Chinese policy process becomes more pluralistic, there is also a greater need to engage Chinese society and institutions such as the National People's Congress directly.

Looming Challenges

Despite the many cooperative elements in U.S.-China relations, China may pose challenges for the United States in a number of areas. One is the potential for domestic instability. Chinese leaders would likely respond to widespread instability with a political crackdown to maintain order, possibly involving the use of force. This would raise the profile of human rights issues in U.S. China policy and heighten concerns that China was moving toward greater authoritarianism rather than democracy. Chinese leaders would likely also seek to accelerate economic growth via increased exports to ameliorate underlying social problems. This might lead to increased government subsidies or incentives for exporters, further aggravating U.S. concerns about China's trade practices and undervalued currency. The Chinese leadership might also be tempted to blame domestic problems on outside influences in an effort to justify a political crackdown and harness nationalist sentiment behind government policy.

A second challenge involves Taiwan. The "one China" framework has allowed the United States to enjoy the economic and security benefits of cooperation with China without paying the domestic and international political costs of abandoning Taiwan. However, a number of trends are gradually eroding the stability of the *status quo* and challenging the continued viability of the "one China" framework.⁵ This include Chinese military modernization, Taiwan's increasing economic dependence on the mainland, and efforts by Taiwan political leaders to highlight Taiwan's separate status. The "one China" framework has served U.S. interests effectively for three decades, but the United States is being drawn more deeply into the dispute to preserve the status quo in the face of potentially destabilizing trends. Can the status quo be sustained indefinitely? Stability requires China, Taiwan, and the United States to make pragmatic compromises and to tolerate continued ambiguity about Taiwan's status. Managing these tensions in the context of an increasingly powerful China will be a major challenge for U.S. policy.

⁵ This section draws upon Phillip C. Saunders, "Long-Term Trends in China-Taiwan Relations: Implications for U.S. Taiwan Policy," *Asian Survey*, Vol. 45, No. 6 (2005), pp. 970-991.

The potential for a U.S.-China military confrontation over Taiwan complicates a third strategic challenge: the interaction between Chinese strategic force modernization and U.S. ballistic missile defenses. After more than two decades of development, China will soon begin deploying a new generation of mobile land-based intercontinental ballistic missiles (ICBMs) and sea-launched ballistic missiles (SLBMs) on nuclear submarines.⁶ These new missiles will improve the survivability of China's nuclear deterrent and double or triple the number of Chinese nuclear warheads that can reach the continental United States. Interactions between China's strategic modernization and U.S. ballistic missile defense (BMD) deployments could generate an action-reaction spiral that leads to a strategic arms race. Even if this outcome is avoided, increased strategic mistrust and suspicion could spill over into bilateral relations in negative and potentially destabilizing ways. From a political standpoint, the key question is whether China's strategic modernization and U.S. missile defense deployments are viewed as reasonable responses to real strategic vulnerabilities or as indicators of hostile political intentions. The negative U.S. reactions to China's successful test of a ground-based anti-satellite (ASAT) weapon on January 11th illustrate how strategic weapons developments can effect bilateral relations.

China's expanding regional and global influence is a fourth strategic challenge. The growing economic importance of the China market and China's use of overseas investment and foreign aid have provided Beijing with new international tools. Chinese diplomacy has also become more sophisticated, embracing multilateralism and launching new initiatives aimed at spurring regional cooperation.⁷ China's efforts to reassure its neighbors have helped calmed regional fears about China's rising power; Asian countries increasingly view China as a partner and market opportunity rather than a potential threat. Beijing's use of economic and political tools to pursue its international goals is certainly preferable to the use of military instruments, but China's increasing influence will complicate U.S. efforts to pursue its own regional and global interests. Influence is not necessarily a zero-sum game, but China's growing ties with U.S. friends and allies in Asia—and its expanding influence in Africa, Latin America, and the Middle East—could limit the U.S. ability to pursue its international goals and respond to Chinese actions that threaten U.S. interests.⁸

Perhaps the biggest long-term challenge is the prospect of a strong China which might someday challenge the U.S. strategic position. China has enjoyed the most rapid economic growth in world over the last twenty-five years and is the only potential peer competitor for the United States on the horizon. Although the Chinese economy faces a number of difficult challenges, most economists expect that economic growth will continue, albeit at a somewhat slower pace. Aided by foreign investment, China has begun to move up the technology ladder from labor-intensive goods to exports that

⁶ This section draws upon arguments in Phillip C. Saunders and Jing-dong Yuan, "China's Strategic Force Modernization," in Albert Willner and Paul Bolt, eds., *China's Nuclear Future* (Boulder, Col.: Lynn Rienner, 2006), pp. 79-118.

⁷ Evan S. Medeiros and M. Taylor Fravel, "China's New Diplomacy," *Foreign Affairs*, Vol. 82, No. 3 (2003), pp. 22-35.

⁸ See Phillip C. Saunders, *China's Global Activism: Strategy, Drivers, and Tools* (Washington, DC: National Defense University Press, 2006), http://www.ndu.edu/inss/Occasional_Papers/OCP4.pdf.

incorporate more advanced technology. As China moves up the technology curve, many Americans view it as a looming economic and a strategic challenge. This anxiety is reinforced by the realpolitik worldview of Chinese leaders, who are committed to realizing the goal of a “rich country, strong army.” U.S. policymakers, including then-Secretary of Defense Donald Rumsfeld, have expressed concerns about the purposes behind China’s increasing military spending and military modernization efforts.⁹ These factors lead many U.S. analysts to worry that China might eventually challenge the U.S. global position.

These concerns are reinforced by China’s role as a successful “communist development state” where the Communist Party plays a leading role in fostering economic development. Some argue that the Chinese approach of reforming the economy while limiting political reforms represents a new model with considerable appeal to leaders in developing countries.¹⁰ Chinese leaders remain committed to Communist Party rule and have explicitly rejected multi-party democracy. The human rights Americans care about most—political rights, freedom of speech, and freedom of religion—are the areas where China has made the least progress. Moreover, recent crackdowns on press freedom and nongovernmental organizations have eroded some of the limited progress that had been made.

The prospect that the Chinese government may continue to be authoritarian highlights questions about how a stronger China might behave in the future. Besides Taiwan, China has a host of unresolved maritime and territorial disputes, including claims to the Spratly Islands, disputes with Japan over the Senkaku/Diaoyu Islands and the East China Sea, and disputes with Vietnam over the Paracel Islands. These issues are complicated by the existence of considerable natural gas and possible oil resources in the disputed territories. China’s increasing demand for energy to fuel its economic growth has prompted concerns that Beijing might defend its maritime claims more aggressively and seek to develop a blue water navy to protect its sea lines of communications to the Middle East.

These concerns have been part of the China debate since the mid-1990s, but several recent developments are giving them increased salience. The first is a sense that China is improving its military capabilities more rapidly than expected. This reflects the cumulative impact of double-digit real increase in Chinese military spending since 1999, “software” reforms in training, education, doctrine, and logistics that are improving PLA operational capabilities, and increased Chinese deployments of both Russian and domestically-produced weapons systems. Analysts disagree about the significance of some of these developments, but most agree that Chinese military modernization is moving faster than anticipated in the late 1990s.

⁹ “Secretary Rumsfeld’s Remarks to the International Institute for Strategic Studies,” Singapore, (4 June 2005), available at <http://www.defenselink.mil/transcripts/2005/tr20050604-secdef3002.html>.

¹⁰ Joshua Cooper Ramos, *The Beijing Consensus* (London: Foreign Policy Centre, 2004), available at <http://fpc.org.uk/fsblob/244.pdf> and Joshua Kurlantzick, “Cultural Revolution: How China Is Changing Global Diplomacy,” *New Republic*, (27 June 2005), pp. 16-21.

A second factor is the realization that integration in the world economy and membership in international and regional organizations has given China new opportunities to influence how these institutions operate. While membership shapes China's foreign policy choices (through socialization and by raising the costs of aggressive policies), it also enables Chinese foreign policy as China learns how to operate in a multilateral setting and how to employ political and economic levers to exercise influence. This is a logical consequence of China's increasing integration into international organizations, but it has caught many observers by surprise. China's increasing ability to influence the rules and operations of international institutions may limit the degree to which these institutions can shape China's international behavior and political evolution.

A third factor is impatience that economic growth and integration in the world community have not produced dramatic changes in the Chinese political system. There has been significant progress in building the legal institutions that are a precondition for establishing the rule of law, but key political decisions remain firmly in control of the Communist Party. Although Chinese citizens enjoy greater freedom in their daily lives, they do not enjoy freedom of speech or full political rights. It is logical to expect the military and the core institutions of Communist Party control to be the last to liberalize, but the slow pace of political change in China has led some to question the assumptions underpinning engagement.

Despite these concerns, the hedge strategy the United States has pursued since the mid-1990s remains the most appropriate way of responding to the potential long-term challenges posed by China. Alternative strategies such as containment have high costs and limited benefits. A containment strategy would require the United States to significantly increase military spending and to develop expensive new capabilities such as space weapons to negate Chinese asymmetrical warfare options. Containment would not only require the United States to forego the benefits of cooperation with China, but also have a destabilizing impact in Asia as the United States tried to force unwilling countries to act against their perceived interests by lining up against China. Containment would also impose high economic costs on American businesses and consumers, including significant damage to the global competitive position of U.S. companies.

A better approach is to continue engaging China while simultaneously working to improve the U.S. strategic position. This requires enhanced efforts to engage Chinese leaders and to enhance bilateral cooperation. The Bush administration has launched a number of initiatives such as the "senior dialogue" and the "strategic economic dialogue" that could play a useful role in this respect. The "responsible stakeholder" concept outlines a useful framework for long-term U.S.-China cooperation. Nevertheless, there are significant operational challenges to using this framework as a basis for bilateral relations.¹¹ A sustainable China policy will also need to pay greater attention to Congressional concerns about the U.S. bilateral trade deficit and the value of the Chinese

¹¹ See James J. Przystup and Phillip C. Saunders, "Visions of Order: Japan and China in U.S. Strategy." INSS Strategic Forum No. 220. (2006), available at <http://www.ndu.edu/inss/Strforum/SF220/SF_220.pdf>

currency. Maintaining the balance between aggressively pursuing short-term U.S. economic and security interests and longer-term efforts to shape Chinese thinking about its global interests will be difficult. With Deputy Secretary Zoellick's departure, it will also be important to identify a senior member of the administration who can continue the high-level dialogue and help coordinate relations with China across the economic, security, and diplomatic domains.